SOCIAL SAFETY NET

(NI-0075)

EXECUTIVE SUMMARY

Borrower: Republic of Nicaragua.

Executing agency: Emergency Social Investment Fund [Fondo de Inversión Social de Emergencia] (FISE).

Amount and source:

Amounts in 000 US$

	Phase I	Phase II	Total
IDB (FSO):	US$ 9,000	20,000	29,000
Borrower:	US$ 1,000	2,222	3,222
Total:	US$10,000	22,222	32,222

Financial terms and conditions:

Amortization period:	40 years
Grace period:	10 years
Disbursement period (phase I):	2 years
Interest rate:	1% per annum for the first 10 years; 2% per annum thereafter
Inspection and supervision:	1% of the loan amount
Credit fee:	0.50% per annum on the undisbursed balance

Objectives: The purpose of the program is to enhance the well-being of Nicaraguans living in extreme poverty by helping to build human capital. To achieve this purpose, the program has the following objectives: (i) establishment of the initial operating framework for a social safety net; (ii) income supplementation (for up to three years) to allow families living in extreme poverty to increase their food expenditures; (iii) better care for children under five years of age; and (iv) reduction of the school dropout rate in the first four grades in the program area.

Description: The program creates an *initial* institutional framework intended to unify the principal social spending agents in order to develop an *integrated, targeted, cost-effective* safety net strategy. The program also seeks to demonstrate and evaluate different ways to build human capital among the poor through low-cost, integrated activities for training, nutrition, school attendance, health advocacy and reduction of preventable diseases. All of these activities focus on the family unit. The flexible program design makes it possible to adapt the operating framework and the services offered to accommodate local needs and capacity.

The proposed program is designed as a multi-phase operation with an estimated total cost of US$32.22 million (US$29 million financed by the Bank). Each phase will be financed through a separate Bank loan (US$9 million and US$20 million, respectively). This document requests approval for a two-phase approach and a loan for program phase I. This phase will provide an opportunity to test the network's operating framework, various targeting arrangements, and the impact of the program on family behavior with respect to nutrition, health and education. If phase I is successful, phase II will increase the program coverage to include the lessons learned from phase I. The first phase is scheduled for a two-year execution period, and the second phase is estimated to last three years.

The project team will recommend approval of phase II of the program to the Bank's Board of Executive Directors in a memorandum describing any adjustments deemed necessary to improve the operation, efficiency and transparency of the program, as well as a new cost table and the revised procurement plan for phase II. The project team's recommendation will be based on an analysis of the results from the phase I evaluation, which will include the operating, targeting and impact indicators described in paragraphs 3.39-3.42. Additionally, in order to obtain approval for phase II of the program, the borrower will present, to the Bank's satisfaction, a plan describing: (i) the future institutional framework of the safety net; (ii) the arrangements for implementing the safety net; and (iii) an ex post impact evaluation and monitoring strategy. Lastly, the project team will verify that at least 50% of the loan resources for phase I have been disbursed and at least 75% of the phase I resources have been committed.

The program will finance: (i) **institutional strengthening** to establish the operating framework for the safety net; (ii) **health and food security** in the form of a food subsidy and support to increase the availability of nutritional and health training for families, as well as immunization coverage and development and growth monitoring for children under five years of age; (iii) **education**, through an education subsidy for families with children in grades 1-4, a school pack that will provide children with shoes, clothing and basic school supplies, and a subsidy for educational materials; and (iv) **targeting and evaluation**, for the purpose of establishing objective, transparent criteria for selecting beneficiaries, and impact indicators for measuring program performance.

Bank's country and sector strategy: The program is consistent with the poverty reduction strategy that the Government of Nicaragua is developing with support from the IDB, the International Monetary Fund and the World Bank[1]. Social protection is the third pillar of the government's strategy, in addition to sustainable growth and investment in human capital. The safety net is a crucial element of the country strategy supported by the Bank in Nicaragua, inasmuch as it complements the existing social protection programs (FISE and the Supplementary Social Fund [FSS]). The objective of the safety net is to include extremely poor families in the process of investing in human capital. (See footnote 3 on page 1 and paragraphs 1.2 and 1.7.)

Environmental and social review: The program will establish the initial framework and model for a social safety net whose activities are aimed at families living in extreme poverty. It will foster women's development by supporting activities to consolidate the family unit and by empowering mothers and female heads of household. The program is expected to have a positive impact because it encourages a behavioral change in families that will be favorable to the environment.

Benefits: The safety net offers an arrangement that stimulates cooperation among line ministries, local governments and the community. It will help to shape the government's policy-setting function and encourages families to adopt a responsible attitude, demonstrated in behaviors that reduce health risks and in greater value placed on education.

Risks: **Targeting of beneficiaries.** The risk of including people who are not living in extreme poverty will be minimized by establishing strict targeting criteria and a formal supervision system, through periodic visits and the use of open community meetings.

Negative incentives in the labor market. The subsidies are intended to increase family well-being through food supplementation. If the cash subsidies are too large, however, they could increase the reservation wage and thus reduce supply in the labor market. The income assistance provided for is therefore small enough so as not to distort the market.

Interagency coordination. Incorporating the FSS coordinating council into the execution plan and linking the council to the line ministries will strengthen coordination, which is important due to the multisector nature of the program.

[1] See Poverty Reduction Strategy, GON, January 2000

Special contractual clauses:	**1. Conditions precedent to the first disbursement:** Prior to the first disbursement, FISE will present, to the Bank's satisfaction: (i) evidence of the fund transfer agreement signed with the Finance Ministry, including the items described in paragraph 3.1; and (ii) the program's Operating Regulations drawn up in accordance with the terms agreed with the Bank and approved by the coordinating council (paragraph 3.3). **2. Other special conditions** As a condition precedent to disbursement of the health, food security and education components, FISE is to present the *final list of communities* and the baseline evaluation for phase I (paragraphs 3.15 and 3.44). Beginning March 31, 2001, disbursements will be subject to the borrower demonstrating, to the Bank's satisfaction, that it has extended the life of the coordinating council of the FSS or that it has created an agency with a structure and functions similar to those of the program's coordinating council. The loan agreement will state the conditions that were met by the executing agency prior to presentation of the program to the Board of Executive Directors (paragraph 3.57). Agreement is also to be reached on the conditions appropriate to this type of agreement and the establishment of a 10% revolving fund.
Poverty-targeting and social sector classification:	This operation qualifies as a poverty-targeted investment (see paragraphs 3.15 and 4.6). Furthermore, this operation qualifies as a social equity enhancing project, as described in the indicative targets established in the report on the Eighth General Increase in Resources (document AB-1704). The borrower will be using the 10 percentage points in additional financing (paragraph 2.26).
Exceptions to Bank policy:	None.
Recognition of previous expenditures:	The Bank may recognize up to US$500,000 in costs incurred by the borrower as of March 1, 1999, to carry out the activities specified in paragraph 3.51 as part of the financing.
Procurement:	The program does not call for any construction work. Bank procedures will be followed for procuring goods and consulting services.